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Front Page

In the Hands of Employees

By Dow Scott, Ph.D., Loyola University, Mark Reilly, 3C Compensation, and John Andrzejewski, Anson Industries Inc.

With the recent controversy surrounding employee ownership, one privately held company has held fast to the same rule for nearly 50 years: Keep it simple, and keep it in employees' hands.

QuickLook

- Giving employees a stake in the business is the reason most often attributed to enhanced company performance.
- When Anson employees bought out the company owners in 1954, a rule was established that only employees could own stock.
- Even very simple incentive tools can be used with great effectiveness.

Effective compensation programs must meet many requirements. They must align with the company's business strategy, be consistent with the pay philosophy of senior management, be perceived as fair by employees and be able to enhance company competitiveness -- all while containing labor cost increases.

Building compensation systems that can meet these expectations often results in an amalgamation of pay programs so complex they could befuddle even the most attentive employee or the manager who is trying to explain the plan. Furthermore, complex plans seem to have short shelf lives or require constant fine-tuning.

Consequently, when a compensation plan was discovered that was neither complex nor short-lived - - and obviously was highly effective for one company -- it was enough to catch even compensation veterans off guard.

About Anson Industries

Anson Industries was formed when United States Gypsum (USG) sold the division to two senior employees in 1941. Anson provides a range of construction services through four operating companies that concentrate on the installation of interior wall and ceiling systems and related exterior specialties, including commercial drywall, acoustical ceilings, and lath and plaster systems.

Anson Industries has 167 employees in eight offices in eight major cities. Each site operates independently and maintains its own profit and loss statement. There are 15 to 25 employees at each office who develop project bids and manage the work of about 1,250 craft workers hired from local unions. Although union workers are hired for specific jobs and have opportunities to work for a variety of employers in their local area, many choose to work exclusively for Anson. Conversely, Anson tries to maintain employment stability for its workers.

Anson has built a team of professional project managers who, along with highly skilled union construction crews, are able to handle very large jobs, including the Seattle Seahawks Stadium, Constellation Place in Century City, Calif., and Parkview Office building in Atlanta. The company has a strong reputation based on its ability to provide quality work at competitive prices and flexible scheduling.

During the commercial construction boom in 2001, Anson Industries had revenue of \$200 million, and its three-year compounded annual growth rate was more than 20 percent. In 2002, the economy and the war on Iraq caused revenue to decline. Though spending on commercial construction projects in 2002 was down 20 percent, Anson remained a strong performer and maintained profitability. (See Figure 1.)

Over the years, diversification across U.S. cities has proven to be a natural hedge against boom-and-bust economic cycles that plague many construction companies. When building in one city slows, it seems to be offset with greater-than-average building opportunities in another city.

Employee Ownership

There is a long tradition of employee company ownership in the United States -- it is even encouraged by government through laws that provide a variety of tax advantages. In fact, 21,000 company plans facilitate company ownership, including employee stock ownership plans (ESOPs), stock bonus plans, profit-sharing plans, stock purchase plans, 401(k)s and broad-based stock option plans, according to data from the National Center for Employee Ownership (NCEO). And these statistics do not include the various partnerships in which key employees have a major stake in company performance.

Not surprisingly, employee ownership has been linked to increased company performance. Giving employees a stake in the business is the reason most often attributed to enhanced company performance, and companies with ESOPs grow in sales, employment and productivity 2 percent to 3 percent faster each year than predicted without an ESOP, according to authors D. Kruse and Joseph Blasi in "Employee Ownership, Employee Attitudes and Firm Performance: A Review of the Evidence, in The Human Resources Management Handbook. Recently released results of the Employee Ownership Foundation's Economic Performance Survey said that more than 80 percent of the respondents' companies outperformed the Dow Jones Industrial Average, the Nasdaq Composite and the S&P 500.

However, employee-owned companies are not immune from serious problems. Consider United Airlines: Chapter 11 bankruptcy has wiped out the stock that employees once had invested in the company. Why is this airline giant having these problems? Was it the ESOP? Excessive union

involvement? Something academic to the airline industry? Or was it a combination of all of these?

"While the ESOP did not cause United to fail, the ESOP has abjectly failed to help the company the way most ESOPs do, said Corey Rosen, NCEO executive director, in the Kruse/Blasi article. Rosen also said that actual ownership must be combined with a culture of ownership.

Anson Industries has succeeded in making this connection where United failed.

In 1954, the two owners who purchased the company from USG decided to retire, so they offered employees an opportunity to buy them out, thereby creating an employee-owned company. A rule was established that only employees could own stock, and they must surrender their stock upon retirement.

Every two years there is a stock offering to employees. A local bank provides loans of up to 50 percent of the stock price for employees to purchase Anson stock. Currently, senior management owns 60 percent of stock, and the rest of the employees own the remaining 40 percent. Though employees are not required to buy stock, 95 percent of the employee population owns stock. (See Figure 2.)

Anson also has a profit-sharing plan that covers all full-time salaried employees who have completed one year of service. The company's contribution is made at the discretion of the board of directors. Anson contributed \$1.65 million in 2001 and \$541,000 in 2002. Typically, all of the company's after-tax earnings are distributed to employees through either stockholder appreciation or profit sharing.

When employees want to sell their stock, the value is calculated as the current book value. The company has first right to buy the stock back and can spread the purchase of employee stock over a five-year period.

Stock also may simply be sold directly to other employees. A letter is sent to existing shareholders asking if they want to buy the stock at the current book value. If the offer is oversubscribed, the shares each person can buy are pro-rated among the buyers based on the amount they would like to purchase. The company repurchases any shares not sold this way.

Anson restricts the sale, transfer and assignment of stock. Shares owned by a terminated employee are offered to other employees for purchase or are purchased by the company at book value. The company repurchases all stock owned by an employee at his or her death. Stockholders who reach the age of 60 have the option to sell 10 percent of their shares back to the company once a year until their retirement, resignation or discharge.

Leadership

Anson Industries' leadership is unique in several ways.

Commitment to Employee Ownership

First, senior management has a long-term commitment to employee ownership. Although it is recognized that employee owners could sell or take the company public and receive a great deal more for the stock than the current book value, the company leadership is committed to keeping the company in employee hands.

Management also recognizes the danger of having any one employee own too large a share of company stock. Therefore, the president, who is the largest stockholder, is reluctant to purchase more stock. Clearly, the leadership is committed to the welfare of the company and all employees -- it is not simply trying to maximize its own short-term earnings. Senior management recognizes that the employee ownership philosophy of Anson would change if someone owned too much stock.

Promoting from Within

The second unique feature about the company's leadership is that senior management has "grown up in the company. It is the company's policy to hire newly "minted college graduates and retain them throughout their careers. As a result, company leadership is not only committed to sharing ownership, it also is committed to a "promote from within policy. Senior management is convinced that this policy ensures that everyone has a thorough understanding of business from the ground up.

Management has direct knowledge of customer needs and has established long-term relationships with labor unions that supply the contract labor. Anson is able to attract employees who want long-term careers with a company where they can own a piece of the business. Employees, who appreciate their career opportunities and ownership potential, are reluctant to leave Anson -- as is apparent by the company's 1 percent turnover rate.

Company Culture

There is an advantage to having a relatively small company that is divided into even smaller local offices: Managers work closely with employees and customers, generating feelings of a small family business. Also, company performance can be measured by office or district. The profitability of jobs that are bid and managed at local levels provides very direct feedback regarding the success of the local business. District office managers' and project managers' bonuses are based on gross profit margin for the areas they manage and the business they sell.

Employee Involvement

Because most employees are owners, they participate in stockholder meetings and elect the members of the board. The annual stockholder meeting is a featured event each year and is well attended. At this meeting, employee owners have the opportunity to express feelings about leadership and how the company is managed.

Open Door Policy

Finally, because of the organizational structure and leadership philosophy, employee participation can function at an informal level. Employees are encouraged to speak up, even to their bosses. As shareholders, they feel more empowered to submit suggestions to senior management. Given the nature of the business and the size of the company and its offices, this method of engaging employees seems to work well.

Lessons Learned

The first fundamental lesson that can be taken from Anson is that even very simple incentive tools can be used with great effectiveness. Sometimes it is easy to forget that it is not the tool that creates outstanding results, but how the tool is used. Obviously, Anson employees feel a strong sense of ownership. Do these feelings stem simply from the opportunity to own stock or earn profit-sharing bonuses? No. A feeling of ownership comes from an organizational culture that encourages employees to literally buy into the business, and then behave like owners.

Secondly, the compensation practices are consistent with the business strategy. The company uses a highly leveraged compensation strategy. For example, key positions receive a below-market salary and significant bonuses based on the total gross margin of their completed projects.

Finally, when employees purchase stock with their own money, it has a more powerful effect on behavior than stock option grants or shares in an ESOP. "Real stock ownership provides both an upside opportunity and downside risk.

Is It Just a Small-Company Mentality?

Does Anson offer lessons just for small companies? Not necessarily. The underlying lesson is to develop feelings of ownership, which encourage employees to become business literate and engage management in the operations of the business. A related lesson is the respect management gives to its owner-employees by listening to their ideas and suggestions -- after all, everyone at Anson is in it together.

About the Authors

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